Blue Grass State University
Case Narrative

Blue Grass State University (BGSU) is a single campus, comprehensive university that was established in 1929. The college enrolled 10,930 students during the 2001-02 academic year. Of this number, 9,980 were state residents. The remainder represented 37 states and 19 countries with the largest number of international students coming from Canada. The university has eight colleges and schools with Science and Technology enrolling the largest number of students (2,550) and Art the smallest number of students at 765 students.

The campus is located in a rural setting, owns 65 buildings, and leases space in several rented facilities. The overall assignable square feet, including rented space, is 3.46 million square feet. The oldest building on campus, Old Main, dates back to 1929 and the newest facilities, the student services and athletics complex, opened in 2001. Deferred maintenance is holding steady but a number of projects will have to be accelerated to avoid serious problems in the coming years. Current policies require that new facilities have a dedicated reserve to assure that deferred maintenance does not increase. The policy was established three years ago yet two exceptions have been made.

The accompanying financial statements are presented in accordance with the new GASB reporting standards. The university had enjoyed good financial health until the last three years when things began to deteriorate. The combination of the poor economy and aggressive competition from peer institutions has resulted in two years of declining enrollments.

The financial statements for the most recently completed fiscal year include the following calculated financial ratios:

Primary Reserve Ratio	.30
Return on Net Assets Ratio	9.46%
Net Operating Revenues Ratio	1.41%
Viability Ratio	.52
Composite Financial Index (CFI) (using equal weighting of the ratios)	2.57

These ratios have meaning standing alone. The BGSU might compare its standing on the ratios alone, compare the ratios as they developed over time, or choose to develop other uses of the ratios appropriate to its specific needs.

The upcoming year provides several strategic opportunities described below. Each initiative is independent of the others and only one can be pursued. The financial implications for each initiative assume that all other factors for the year will remain as they would have been if the initiative were not undertaken. Assuming no initiatives are undertaken, the CFI is expected to increase from 2.57 to 2.89.

Initiative 1. BGSU has identified a Title IX problem that has developed over time due to a shift in enrollments. The shift in the proportion of male to female students, along with various other factors, has resulted in BGSU determining it is in violation of the established equity standards within its athletic programs. BGSU has examined the situation and concluded that it must eliminate some men's sports or add significant numbers of women's sports to remedy the situation. With the exception of football, BGSU's men's programs are highly successful. Football, the biggest drain on the budget, has not had a winning season in years. Despite the poor performance in football, the committee studying the issue concluded that addition of women's sports is the best alternative.

The costs for this effort will be substantial as there are no revenues attached to any women's sports that can be added. Private support may defray some of the costs but it is expected that the impact on the bottom line during FY 2003 will be significant. The impact of this initiative on the CFI will be to reduce it from 2.89 to 2.61.

Initiative 2. BGSU seeks to enhance the overall quality and reputation of its undergraduate programs. Currently, it attracts only a small percentage of the most academically qualified students within the state. The university employs highly qualified faculty throughout its schools and colleges and enjoys a better than average academic reputation. The specific strategies that have been identified include establishing scholarship programs that provide in-state students graduating in the top ten percent of their high school class with guaranteed admission and full tuition scholarships to BGSU.

The cost for this initiative will be very significant. Although a fund-raising campaign is underway to generate endowment support for the initiative, it is anticipated that the first year impact will be fairly severe. The CFI is expected to drop from 2.89 to 2.70 as a result of this initiative.

Initiative 3. An international university has approached BGSU about establishing an undergraduate exchange program. The university, Hong Kong Technical University (HKTU), is an undergraduate institution specializing in technology and applied sciences. One of their programs matches up well with BGSU's program in environmental sciences within the College of Science & Technology. BGSU leaders have engaged in extensive discussions about the need to expand international experiences for BGSU students.

HKTU has indicated a willingness to provide modest financial incentives for BGSU students electing to spend a minimum of two semesters studying in Hong Kong. Even with these incentives, BGSU will incur significant costs to support those BGSU students participating in the overseas program as well as those HKTU students coming to BGSU to take classes. The support will take many forms including increased staffing in the International Programs Office, the addition of a tax compliance specialist to ensure that the incoming international students' financial aid is reported correctly, and financial subsidies to offset the housing costs for BGSU students studying in Hong Kong. The impact on the CFI will be negative in the first year, reducing it from 2.89 to 2.81, although it is anticipated that successful efforts in this program will have positive impacts on research funding in future years.

Blue Grass State University
Financial Ratio Analysis

PRIMARY RESERVE RATIO
Expendable net assets / total expenses

Unrestricted Net Assets	27,059,935
Restricted Expendable Net Assets	
Loans	17,076,244
Scholarships	2,490,824
Departmental uses	986,789
Capital projects	327,063
Total expendable net assets	47,940,855
Total operating expenses	158,110,688
Interest expense	3,974,269
Total expenses	162,084,957
Ratio: 47,940,855 / 162,084,957	0.30

RETURN ON NET ASSETS RATIO
Change in net assets / total net assets

Increase in net assets	16,387,859
Net assets, beginning of year	173,303,104
Ratio: 16,387,859 / 173,303,104	9.46%

COMPOSITE FINANCIAL INDEX (with equal weighting of all ratios) **2.57**

(The CFI scale is 1 to 10 with 3.0 serving as the threshold--i.e., acceptable financial strength.)

NET OPERATING REVENUES RATIO
Adjusted net operating revenues / adjusted total income

Operating loss	(62,272,708)
State appropriations	56,279,000
Gifts	8,255,559
Adjusted net operating revenues	2,261,851
Operating revenues	95,837,980
State appropriations	56,279,000
Gifts	8,255,559
Adjusted total income	160,372,539
Ratio: 2,261,851 / 160,372,539	1.41%

VIABILITY RATIO
Expendable net assets / total long-term debt

Unrestricted Net Assets	27,059,935
Restricted Expendable Net Assets	
Loans	17,076,244
Scholarships	2,490,824
Departmental uses	986,789
Capital projects	327,063
Total expendable net assets	47,940,855
Current portion of long-term liabilities	3,375,973
Long-term liabilities	89,673,621
Total long-term liabilities	93,049,594
Ratio: 47,940,855 / 93,049,594	0.52